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SUBJECT: LATVIA: INCREASE IN NATURAL GAS TARIFFS

11. On July 24, the Latvian State Public Utilities Commission announced its decision on natural gas tariffs increases. Effective October 1, natural gas tariffs will increase by an average of 38%. For households, the increase will be roughly 60% and for businesses 32-40%. A tariff increase was requested earlier this year by the Latvia's central natural gas supplier Latvijas Gaze (LG), which called for a 57-71% increase for households and 24-36% increase for businesses. The Commission lowered various expense estimates provided by LG by a total of LVL 14 million (\$31 million USD) and, therefore, adopted lower tariffs than requested.

12. Price inflation continues to grow as Latvia is moving towards market-level energy prices. The latest rise in gas prices will have both a direct and indirect effect on the consumer price index by increasing heating, electricity and overall production costs. Inflation, which decreased by 0.2% points in June will likely jump again in the fall, once the new tariffs go into effect.